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TAGS: [ECON](#) [PGOV](#) [PREL](#) [ETRD](#) [EUN](#) [CY](#)
SUBJECT: NEW GOC MEASURES FOR TURKISH CYPRIOTS: LESS THAN
MEETS THE EYE

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Classified By: CDA JANE B. ZIMMERMAN, REASONS 1.4 B AND D.

¶1. (C) Summary and comment: The GoC recently announced new measures ostensibly designed to promote economic development in the Turkish Cypriot community. These include 30 million Euro in grants from 2007 to 2010 to joint ventures with at least 30 percent Turkish Cypriot participation (although the entire amount of the grant would have to be spent in the government-controlled area in the south) and two million Euro in annual grants for bicomunal events organized by NGOs. Turkish Cypriots have universally dismissed the measures -- which will not come into effect until the fall -- as meaningless propaganda. Any Turkish Cypriot who participates in the program is at risk of being branded a traitor. Turkish Cypriots have also (correctly in our opinion) ascribed the motives behind the measures as based on the GoC's desire to do everything possible to prevent passage of an EU "direct trade" regulation. It would be wrong to expect too much out of the measures, especially given the requirement to use joint venture funding only in the south, official Turkish Cypriot opposition, lack of prior consultation with Turkish Cypriots, and the red tape and other restrictions that are likely to accompany any grant. After all, the GoC has spent much of the last three years trying to control and/or undermine bicomunal contacts. Nevertheless, the measures have some potential symbolic value as a signal of GoC support for bicomunal activities and intra-island trade. End summary and comment.

¶2. (SBU) On May 21, Finance Minister Sarris and Director of the Presidential Diplomatic Service Tzionis formally announced new measures, previewed to the diplomatic community April 2, to support private bicomunal cooperation. Specifically, Sarris and Tzionis announced plans to establish funds to support bicomunal joint ventures, especially those involved in trade across the green line, and bicomunal collaboration by NGOs.

¶3. (SBU) Presidential Administration staffer Menelaous Menelaou and Cyprus Chamber of Commerce and Industry President Manthos Mavrommatis later separately clarified the following:

-- The Council of Ministers had already approved the joint venture fund and would approve the bicomunal NGO fund soon.

-- Because the joint venture fund involved state aid to businesses, the GoC had submitted the outlines of the program to the European Commission for its approval -- a process

which would take from 2 to 6 months. Thus the earliest this program could start was September. An October or November start, however, was more likely. The Cypriot Legal Service was still looking into whether the NGO fund would also need Commission approval.

-- The GoC plans to make 30 million Euro available in grants over four years to joint ventures with at least 30 percent Turkish Cypriot capital, with 500,000 Euro being the maximum available to any one joint venture. Due to EU rules, the GoC cannot treat Greek Cypriot companies any differently from companies established elsewhere in the EU. Thus, the GoC cannot restrict the program to only Turkish Cypriot-Greek Cypriot joint ventures. Thus, any joint ventures involving EU and Turkish Cypriot companies/investors could apply, providing that at least 30 percent of the joint venture capital is Turkish Cypriot and at least 30 percent of the capital is from an EU company.

-- The entire amount of the grant to a joint venture must be spent in the government-controlled area of Cyprus. The grants are considered state aid and thus must meet EU state aid regulations. EU state aid rules require that the money be spent in specially designated areas. For Cyprus this is most of the government-controlled area minus the cities of Limassol, Larnaca, and Paphos and parts of Nicosia. Since the acquis is suspended in the north, no part of the Turkish Cypriot community is designated as eligible for state aid. Menelaous argued that this restriction was not as bad as it sounds. Because money is fungible, the grants can free up some of the joint ventures, own funds for projects in the Turkish Cypriot community. It also enabled the GoC not to have to place any restrictions on a joint ventures, use of property in the north; since the GoC funds cannot be used in

the north, the GoC is protected from accusation that its money is being used to finance development on properties owned by Greek Cypriots displaced in 1974.

-- Members of the joint venture would not have to be registered in the Republic of Cyprus, but could be registered in any EU member state. Similarly Turkish Cypriot companies entering into a joint venture could be registered elsewhere in Europe or could even qualify by demonstrating that they were members in good standing of the Turkish Cypriot Chamber of Commerce or Turkish Cypriot Chamber of Industry.

-- The Ministry of Finance is heading an interagency commission that will develop the details of the program, eligibility requirements, and criteria for awarding grants. A committee headed by the Finance Ministry PermSec with representatives from the Ministries of Agriculture and Commerce will decide which joint ventures receive the grants.

A bicomunal board will be set up to advise the selection committee. If no Turkish Cypriots agree to serve on the advisory board, their places will be filled with Greek Cypriots.

-- The GoC will put two million Euro a year toward grants to NGOs organizing bicomunal projects or events. The program will be loosely modeled after the U.S. Embassy's bicomunal programs. (Note: While Menelaou told us the program would be administered by the Interior Ministry, a Planning Bureau staffer told us his office would oversee the program, which would be administered by a private contractor.) The GoC is currently consulting the European Commission to determine whether these grants could also be seen as state aid and thus whether formal Commission approval is needed. In any case, it will be several months before this program will begin.

Turkish Cypriot Reaction Universally Negative

14. (SBU) Reaction from the Turkish Cypriot community to the measures has been universally negative. Turkish Cypriot Presidential Spokesman Hasan Ercakica told the press that the GoC's failure to consult with the Turkish Cypriots on these measures undermined the spirit of the July 8 agreement, and that the GoC's unilateral measures were "destroying the

negotiation process." Ercakica characterized the initiative as akin to "a political attack." The President of the Turkish Cypriot Chamber of Commerce dismissed the measures as an attempt by the GoC to assert its sovereignty over the Turkish Cypriot community.

15. (C) Turkish Cypriots were unanimous in ascribing the GoC's motive behind the measures as its desire to prevent EU member state approval of the European Commission-proposed "direct trade" regulation, which the GoC adamantly opposes. The fact that the measures were initially previewed to the diplomatic community and were formally announced by the GoC one day before an important EU meeting where the "direct trade" regulation was to be discussed, supports this thesis. GoC officials regularly argue that the new measures, like the EU's Green Line regulation, bring the two communities together, while the "direct trade" regulation would reinforce segregation and drive the two communities further apart. By giving Turkish Cypriot products shipped through Turkish Cypriot ports (and not just those products shipped through the south) preferential treatment, the GoC believes the EU would be undermining GoC policy by legitimizing the "illegal" Turkish Cypriot ports, lowering Turkish Cypriot dependence on the south, and reducing the Turkish Cypriots' motivation for a settlement. In a recent poll, 75.8 percent of Greek Cypriots reported that they believed that Turkish Cypriot economic development made reunification less likely. According to GoC dogma, the EU "direct trade" regulation is not needed as all the benefits it would provide the Turkish Cypriots are available now through the use of Greek Cypriot ports; it is the Turkish Cypriots, fault that they are not taking full advantage of the Green Line measure as the GoC is trying to find ways to make it work.

16. (C) Turkish Cypriots also appear unanimous in their belief, based on prior experience, that the GoC is likely to place so many restrictions on Turkish Cypriot participants of the grant schemes to make the program unworkable in practice. A European Commission official working on the EU aid program in the north told us that a GoC official had told her that Turkish Cypriot NGOs which had their headquarters on Greek Cypriot land would not be allowed to use any of the GoC's

funds under the NGO support program. If true, this would mean only around five Turkish Cypriot NGOs would be eligible for any aid. While Menelaou insists that the NGO program will not include any restrictions on property, Turkish Cypriots remain skeptical.

Other GoC Measures Not Going Forward

17. (C) On April 2, MFA Cyprus Problem Director Ambassador Erato Marcoullis had previewed these programs to the diplomatic community. Ambassador Marcoullis also raised two other programs for the Turkish Cypriots: creation of a Turkish Cypriot-run area of Larnaca port and a GoC-run distribution company for Turkish Cypriot goods. The Larnaca port idea is not new and has been raised several times. It would involve part of the Larnaca port being manned exclusively by Turkish Cypriots and reserved for Turkish Cypriot goods. The program is not as good as it first sounds. The volume of Larnaca port is quite small and it currently does not handle any container traffic. While it might be significantly cheaper for Turkish Cypriots to ship some bulk products such as potatoes or scrap iron through Larnaca (at least at certain times of the year) rather than Turkish Cypriot ports, shipping through Limassol port would still be significantly less expensive for most products. Those Turkish Cypriots willing to risk the anger of their authorities by openly shipping through the south will, for financial reasons, want to use Limassol rather than Larnaca. The potato deal that was blocked by the Turkish Cypriot authorities (ref a) was to go through Limassol. The one official shipment of Turkish Cypriot goods that has gone through the south (a shipment of Turkish Delight) went through Limassol as do most goods exported from Cyprus.

18. (C) By proposing to hire Turkish Cypriot staff at the

Larnaca port, the GoC was, at least officially, trying to find a way to reduce the Turkish Cypriot fear that the GoC bureaucracy would find ways to introduce impediments to the export of Turkish Cypriot goods. While the proposal, if instituted in Limassol rather than Larnaca, might help address this fear, it will not completely eliminate it, as the Turkish Cypriot goods would still need to pass through the Greek Cypriot police and Customs, both at the Green Line checkpoint and at the port entrance. The Green Line regulation also prohibits a significant part of current Turkish Cypriot exports (such as dairy products) from crossing over to the south. In any case, Presidential Administration staffer Menelaou admitted to us that the GoC has stopped working on this proposal due to lack of Turkish Cypriot interest. The GoC Port Authority staff in Larnaca laughed when we asked about the proposal and did not appear to believe it was a serious offer or that it would ever be implemented.

¶9. (C) The original official idea behind establishing a GoC-run distribution company for Turkish Cypriot goods is to overcome the psychological barrier that still prevents most Greek Cypriots from being seen buying or selling Turkish Cypriot goods. Almost all Greek Cypriot stores refuse to carry goods recognizable as Turkish Cypriot out of fear of being branded traitors and boycotted by their customers, suppliers, and employees. Those Turkish Cypriot goods that have crossed the Green Line tend to be goods that are not required to be labeled as Turkish Cypriot, such as agricultural products. Hotels will also buy Turkish Cypriot toilet paper and tissues that they place in their rooms, and construction companies will buy Turkish Cypriot material that they place in their buildings and homes -- but only because the final consumer has no idea that the products he or she is using come from the north. If the GoC is the middleman, however, Greek Cypriots and Greek Cypriot companies buying or selling Turkish Cypriot products would be protected from public opprobrium. Menelaou told us, however, that the GoC had decided not to create a GoC-run distribution company for Turkish Cypriot goods because it decided acting as a private trader was not an appropriate government role. This did not preclude, however, a private bicomunal joint venture from receiving GoC funds to establish such a company.

¶10. (SBU) Also in May, the European Commission finally approved a new regulation that will expand the scope of the Green Line regulation by allowing fish and honey to cross the Green Line. Before this trade can begin, EU experts must come and conduct several tests and all fishing boats must be registered and inspected. Thus the earliest trade in these

products can begin is this fall. Three restrictions on fish, however, will significantly limit the impact of this new regulation. Only caught fish will be permitted to cross the Green Line (fish from fish farms is still prohibited), fish can be sold only to shops or restaurants (not to wholesalers), and the fish must be fresh (processed or frozen fish is also prohibited.) While it appears it was the European Commission that imposed these restrictions rather than the GoC, this has reinforced the Turkish Cypriot stereotype that the GoC is busy working behind the scenes to quietly sabotage any measures designed to support the Turkish Cypriot community.

Comment

¶11. (C) While the GoC programs may not be ideal, there are ways the Turkish Cypriots could try to use them to their advantage. Establishment of a warehouse in the south or a GoC-funded distribution center for Turkish Cypriot goods are two examples. The joint venture measure could even help break down Greek Cypriot reluctance to be seen buying Turkish Cypriot goods; Greek Cypriots buying Turkish Cypriot goods will have some degree of political protection if they are buying those goods from a company financed by the GoC. In theory at least, the Turkish Cypriots would not even have to have Greek Cypriot participation but could establish a joint venture with any EU firm. Nevertheless, Turkish Cypriot

practice is to insist on everything or nothing and not to accept small piecemeal progress. This, coupled with growing Turkish Cypriot frustration, lack of trust, and a desire to do everything in their power to prevent Papadopoulos's reelection, suggests that the Turkish Cypriots will do little to take advantage of the GoC's latest offer, flawed as it is.

For the GoC this may be the best outcome. It will be able to take credit for efforts to improve Green Line trade without having to take any action (or have its goodwill tested), and can further paint the Turkish Cypriot community as the intransigent party.

ZIMMERMAN